

EXHIBIT 22

ORP

ANALYSIS OF MEDICAID DRUG REIMBURSEMENT PROPOSALS

1. Problems in Interpreting Proposals

The Revised MAC, PHIP and CIP proposals, as set forth in proposed regulations, provide only a general description of the policies that would be followed by the Federal and state governments. Further, under each of the proposals states have substantial discretion in the implementation and enforcement of the new regulations, and except under CIP, have full discretion over the level of pharmacy fees. These uncertainties concerning the substance of the proposals make it difficult to prepare cost estimates.

Some of the major problems in interpreting the proposals are discussed below.

a. Parameters of PHIP and CIP

The principal parameters of PHIP and CIP have not been determined. The levels of the discounts and how the screens will function in CIP are still undecided. The markup level for PHIP is also undecided, and quite different levels would be compatible with the general approach.

Similarly, CIP depends on "usual and customary prices" to provide the basis for payment for all prescriptions and on screens derived from the customary prices. But neither is adequately spelled out in terms of operational procedures. Pharmacies may have many prices for the same products, and may vary these frequently. As a

- 5 -

Since virtually every state is convinced that CIP would be more expensive than their present program, it would appear most unlikely that a significant proportion of the states would fail to produce corresponding findings unless there are very rigorous federal requirements and review procedures. In fact, unless this provision is changed, it is very easy to estimate the cost savings from CIP, i.e. virtually nil.

Yet another aspect of CIP that can have a major impact on potential savings is the general loop-hole permitting higher prices whenever circumstances require it for a valid policy reason. If the absence of a local pharmacy willing to accept the Medicaid level of payment is a valid reason, the impact of the screens may be reduced significantly.

d. Savings under MAC. Revised MAC and PHIP Depend on Other Actions of States

If the impact of any proposal is to reduce pharmacy income rather than to generate real savings by increasing use of lower priced products, it is likely that state legislatures will act in ways that eliminate the savings within a year or two (unless such actions are precluded by the proposal).

Overall compensation to pharmacies in most states is set through a process of political bargaining between pharmacy owners and state legislatures. If the effect of a proposal is to upset the status quo by reducing pharmacy share, there is no reason to expect this setback to be permanent. Thus, it is likely that a reduction in pharmacy reimbursement will prove to be merely a lost skirmish in a long and

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